

Statement

Congresswoman Stephanie Tubbs Jones

Committee on Financial Services
Subcommittee on Capital Markets, Insurance,
and Government Sponsored Enterprises

July 16, 2002

Mr. Chairman, Ranking Member Kanjorski, Colleagues, and Guests:

This Committee has previously and exhaustively examined the Government Sponsored Enterprises (GSE's), Fannie Mae and Freddie Mac. While recent events have underscored the need for reform in financial firms that operate without any financial regulator, Fannie Mae and Freddie Mac provide a strong example of sound reporting and management controls. These controls provide a measure of safety and soundness that is unmatched by unregulated financial firms.

On Friday, July 12, 2002, Fannie Mae and Freddie Mac announced that they would voluntarily register their common stock under the Securities and Exchange Act of 1934. The result will require Fannie and Freddie to comply with the Act's periodic disclosure requirements. Once these filings are made, Fannie and Freddie will be bound as a matter of federal law to continue to make their filings.

Fannie Mae and Freddie Mac negotiated this agreement even though they are already scrutinized by the Treasury Department, the Securities and Exchange Commission, the Office of Federal Housing Enterprise Oversight, and the Department of Housing and Urban Development.

Friday's action was consistent with Fannie Mae and Freddie Mac's announcement in October of 2000 to set in place financial reports and securities offering disclosures that meet or exceed the requirements of the Securities and Exchange Commission.

While recent events reinforce the need for sound operations and financial practices at major corporations, let's not lose sight of Fannie Mae and Freddie Mac's real mission of providing housing affordability to my constituents who have previously been denied access to home ownership. I have seen firsthand in my district the tangible results of their efforts. Furthermore, Fannie Mae and Freddie Mac have worked to execute their mission in a manner that enables many to reach the goal of home ownership without overly burdensome fees and costs.

I am on the Record as opposing efforts to disrupt housing markets by changing the GSE's Congressional charter to require the registration of their MBS securities. What Fannie Mae and Freddie Mac have achieved together with the Administration is a non-legislative way to assure their investors and policymakers once and for all that their disclosures meet the same

standard to which other publicly held companies are held. Their goal was to improve investor confidence without limiting their ability to fulfill the vital mission Congress has given them.

Let me make sure that we are clear on what disclosure means:

The disclosure requirement applies to everything they issue. When they enter into registration of their common stock, they will have to put their financial statements in the form that's acceptable to the SEC. Take financial statements and put them into offering documents for mortgage-backed securities. So, the disclosure rule with regards to Fannie Mae and Freddie Mac will be exactly the same, all of which will be defined by SEC requirements.

The only distinction that we have is whether or not the securities are registered. This is an important distinction. Last year, the Securities and Exchange Commission had 110 issuances during the year. Last year, Fannie Mae had 1,500 debt issuances and 40,000 mortgage-backed security issuances. It is easy to see that it would not be a small matter to register all of those securities. Of the 40,000 issuances, almost all of them were sold in a forward market prior to the time that the mortgages in them were identified – what they call their TBA or To-Be-Announced market.

When a buyer goes to get a mortgage and “locks in the rate” - that means that a lender is selling forward a mortgage. That's why a lender can tell a buyer, “We'll close your loan in two months and it's going to be 7 percent. They are not guessing; they've actually sold that mortgage forward.

This last point is critical because there isn't a To-Be-Announced market in a registration world because you can only register after you know exactly what the mortgages are. Therefore, it is clear that registration would have a detrimental effect on the availability of mortgages and the purchase of homes.

In real-world effects, Fannie Mae and Freddie Mac are the only companies with a corporate mission that focuses on helping American families purchase homes. Fannie Mae and Freddie Mac focus on low-moderate income and minority consumers who aspire to achieve the goal of homeownership. Homeownership is an important step toward building wealth in families.

Mr. Chairman, I believe that the time this Committee spends examining GSE's could better be used to examine unregulated financial firms. Recent events have proven that unregulated firms create significant systemic risk. Fannie Mae and Freddie Mac do not.

Mr. Chairman, I thank you for the opportunity to be heard.